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**FISCAL IMPACT STATEMENT**

**LS 7325**

**BILL NUMBER:** HB 1668

**NOTE PREPARED:** Feb 22, 2005

**BILL AMENDED:** Feb 21, 2005

**SUBJECT:** Economic Development Tax Incentives.

**FIRST AUTHOR:** Rep. Hinkle

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** The bill provides an alternative method for calculating the Qualified Research Credit of a qualified advanced manufacturing company. It creates a Certified Advanced Manufacturing Investment Tax Credit and a Refundable Advanced Manufacturing Job Retention Tax Credit.

**Effective Date:** January 1, 2005 (retroactive).

**Explanation of State Expenditures:** (Revised) *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this credit. The DOR's current level of resources should be sufficient to implement these changes.

*Indiana Economic Development Corporation (IEDC):* The IEDC would have to administer the tax credits and monitor project investments. The bill provides that the Economic Development for a Growing Economy (EDGE) Board perform these duties. However, under P. L. 4-2005 (HEA 1003-05), the EDGE Board has been abolished and its responsibilities have been transferred to the IEDC and IEDC Board. The IEDC should be able to implement these tax credits with current staffing and resource levels.

**Explanation of State Revenues:** (Revised) This bill provides an alternative method for calculating the Research Expense Tax Credit and creates new Advanced Manufacturing Investment and Advanced Manufacturing Job Retention credits. The changes to the Research Expense Tax Credit would be effective for tax years beginning January 1, 2005. In addition, the Investment and Job Retention Credits would only apply for investment made from January 1, 2005 to December 31, 2009. The credits are applicable to the Adjusted

Gross Income Tax, the Financial Institutions Tax, and the Insurance Premiums Tax.

The potential impact of the credits depends on several factors, including: (1) the number of firms meeting the qualifications of an advanced manufacturing company; (2) the actions of the Governor relating to designating qualified companies; (3) the actions of the IEDC Board in awarding credits for advanced manufacturing projects; and (4) the number of advanced manufacturing companies that elect to use the alternative calculation for the Research Expense Credit. As a result, the potential amount of credits that might be claimed is indeterminable. Assuming the minimum allowable investment and job retention levels under the bill, the impact of a qualified advanced manufacturing project could be as follows:

(1) A \$70.0 M advanced manufacturing project would be eligible for \$700,000 in Advanced Manufacturing Investment credits.

(2) If the project retained 2,000 advanced manufacturing jobs paying the required 400% of the state minimum hourly wage, Advanced Manufacturing Job Retention credits on withholdings could potentially total about \$26,000 annually for three years.

Revenue from the AGI Tax on corporations, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. The revenue from the AGI Tax on individuals is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%). The tax credit is effective beginning July 1, 2005.

*Alternative Calculation of the Research Expense Tax Credit:* Under the bill, a qualified advanced manufacturing company may elect an alternative method to calculate the Research Expense Tax Credit. An advanced manufacturing company is a company that maintains one or more manufacturing facilities in Indiana, employs more than 2,500 full-time employees, pays on average more than 400% of the hourly minimum wage, and has been designated by executive order of the Governor as a qualified advanced manufacturing company. The alternative credit is equal to 1% of the difference between: (1) the taxpayer's current year Indiana qualified research expenses; and (2) 50% of the taxpayer's average Indiana qualified research expenses for the three preceding taxable years. Currently, the credit is equal to 10% of difference between the current year Indiana qualified research expenses, and (2) the taxpayer's base period Indiana qualified research expenses.

The Research Expense Credit is available for individuals, corporations, limited liability companies, limited liability partnerships, trusts, or partnerships who have increased research activities conducted in Indiana. The credit is calculated based on the increased expenses a taxpayer incurred over their base year expenditures. The base year expenditures are measured for taxable years beginning after December 31, 1989, and are equal to the federal base amount as defined in the Internal Revenue Code (2001). A taxpayer is not entitled to a carryback or refund, but may carry forward the tax credit for 15 years. The base year expenses may not be less than 50% of the current tax year's qualified research expenses.

*Advanced Manufacturing Investment Credit:* The IEDC Board would be authorized to award this tax credit against a qualified advanced manufacturing company's state tax liability, if the taxpayer makes a certified advanced manufacturing investment in a qualified advanced manufacturing project. A qualified project would cost at least \$70,000,000. The amount of the credit would be equivalent to 1% of the investment and the credit may be carried forward up to three consecutive years.

*Advanced Manufacturing Job Retention Credit:* Also, the IEDC Board would be authorized to award this tax

credit to a taxpayer undertaking a qualified advanced manufacturing project for income tax withholdings of advanced manufacturing employees. The credit is equal to 1% of the withholdings for full-time employees working in advanced manufacturing jobs at the qualified advanced manufacturing project site. The duration of the tax credit is based on the number of full-time advanced manufacturing jobs maintained. If a taxpayer maintains 2,500 jobs, a credit for five consecutive taxable years would be awarded; between 2,250 and 2,500 jobs, the credit would be awarded for four consecutive taxable years; and between 2,000 and 2,250 jobs, the credit would be awarded for three consecutive years.

*Noncompliance:* For both the Advanced Manufacturing Investment Credit and the Job Retention Credit, if the taxpayer does not comply with the terms of the agreement set with the IEDC Board, the IEDC Director must notify the Department of State Revenue. The Department of State Revenue would assess the taxpayer 50% of credits previously awarded for an Investment Credit or 100% of the credits previously awarded for a Job Retention Credit.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Indiana Economic Development Corporation; Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** U. S. Census Bureau, *2002 County Business Patterns*.

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